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Department of State, A/GIS/PS/SRP

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FROM ARGENTINA TO THE SOVIET UNION AND OUR EFFORTS TO GET ARGENTINA TO LIMIT THESE SHIPMENTS. THE MINISTER FOUND MANY REASONS FOR ARGENTINA'S NOT ATTEMPTING LIMITATIONS, THE GREATEST BEING HIS BELIEF THAT INTERNATIONAL EFFORTS TO DENY GRAINS TO THE SOVIET UNION WERE BOUND TO FAIL AND HIS UNWILLINGNESS TO INTERRUPT ARGENTINA'S POLICY AND PROFITS TO THIS END. HE AGREED HOWEVER TO MAKE PRIVATE REQUESTS TO THE SOVIET GRAINS TRADING COMPANY TO LIMIT PURCHASES IN ARGENTINA TO PAST LEVELS (PLUS A "GROWTH FACTOR") AND TO COOPERATE IN SHARING INFORMATION REGARDING ARGENTINA GRAINS SHIPMENTS.

7. A SEPARATE MEMORANDUM OF CONVERSATION COVERS THE FOREIGN MINISTER'S PRESENTATION OF POLITICAL SUBJECTS. END MEMCON INTRODUCTION AND SUMMARY.

8. WEDNESDAY, JANUARY 23: FIRST PRESENTATION. GENERAL GOODPASTER LED WITH PRESENTATION OF OUR RECKONING OF THE STRATEGIC SITUATION THAT EVOLVED WITH THE SOVIET UNION'S INVASION OF AFGHANISTAN. HE SAID THAT HE WANTED TO EXPLAIN HOW WE BELIEVE RESTRICTIONS ON THE EXPORTS OF GRAIN TO THE SOVIET UNION FIT WITHIN THE CONTEXT OF OTHER ACTIONS OUR GOVERNMENT IS TAKING TO FACE THIS NEW SITUATION. HE SAID THAT HE ALSO HAD COME TO DISCUSS WAYS TO DEEPEN AND STRENGTHEN ARGENTINE-U.S. RELATIONS.

9. IT WAS URGENT, GOODPASTER CONTINUED, TO TAKE

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AN IMMEDIATE, FIRM AND SUSTAINED STAND IN FACE OF THE SOVIET ACTION -- AND NOT TO REPEAT THE COURSE TAKEN IN RESPONSE TO THE SOVIET UNION'S EARLIER INCURSION INTO CZECHOSLOVAKIA WHEN IMPETUS HAD BEEN LOST. THIS LATEST SOVIET ACT WAS FAR MORE BLATANT IN THAT IT WAS THE FIRST MILITARY INVASION OUTSIDE EASTERN EUROPE, AND PRACTICALLY FROM THE BEGINNING INVOLVED SIX ARMY DIVISIONS AND ULTRA-MODERN AIRCRAFT. THOUGH WE CONCEDE THAT IMMEDIATE GOALS AND LOCAL CONCERNS MAY HAVE MOTIVATED THE SOVIET UNION, THE STRATEGIC-DYNAMIC EFFECT WAS NEVERTHELESS ONE OF THREAT TO PAKISTAN AND THE PERSIAN GULF REGION AND, FROM THAT, TO ALL THE WEST.

10. OUR IMMEDIATE RESPONSE, USING GRAINS SHIPMENTS

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AND THE PROSPECT OF BOYCOTTING THE OLYMPIC GAMES, WAS A QUICK SIGNAL TO THE SOVIET UNION AND OUR ALLIES THAT THE U.S. WILL NOT TOLERATE SOVIET CONDUCT. NOW WE ARE INVOLVED IN EXTENSIVE CONVERSATIONS WITH ALL OUR ALLIES, INCLUDING PAKISTAN AND NATO -- PLUS THE REPUBLIC OF CHINA -- TO COORDINATE ACTION. WE BELIEVE A SOVIET TACTIC WILL NOW BE TO PLAY A WAITING GAME, EXPECTING THAT THE ALLIES CAN BE DETACHED ONE FROM ANOTHER. THIS MUST NOT HAPPEN.

11. LIMITATIONS OF GRAINS SHIPMENTS ARE SIGNIFICANT, EVEN IF THE RESULTS OF THESE ARE PRINCIPALLY TO PROCLAIM INTENTIONS. OUR BEGINNING, WE ADMIT, WAS CLUMSY IN THAT WE FAILED TO CONSULT FULLY. BUT NEITHER SECRETARY VANCE NOR THE NATIONAL SECURITY COUNCIL DIRECTOR INTENDS TO ABUSE FRIENDSHIP. WE LOOK TOWARD TO EXTENSIVE, TECHNICAL DISCUSSIONS WITH ARGENTINA REGARDING SUPPLY, STORAGE, SHIPMENT AND POSSIBLE DIVERSIONS OF GRAINS.

12. GENERAL GOODPASTER WENT ON TO REMIND THAT THE

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U.S. HAD NOT CALLED FOR A "BOYCOTT" AND WOULD FULFILL COMMITMENTS MADE BACK IN 1975 TO SHIP THE USSR 8 MILLION TONS OF GRAIN. ECONOMY MINISTER MARTINEZ DE HOZ ASKED FOR A LEGAL EXPLANATION OF "COMMITMENT" AND HOW WE JUXTAPOSED THIS WITH "AUTHORIZATIONS" ALSO FORESEEN IN THE 1975 AGREEMENT. MR. RUSER EXPLAINED THAT STATE DEPARTMENT LAWYERS HAD STUDIED THE QUESTION AND MADE A DISTINCTION BETWEEN WHAT WAS PROMISED AND WHAT HAD BEEN MADE CONDITIONAL ON FURTHER AGREEMENT.

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13. PASTOR ASKED WHETHER IT WAS NOT TRUE THAT THE SOVIET UNION HAS STOCKS PERHAPS EVEN AMOUNTING TO TWO OR TWO AND ONE HALF YEARS OF CONSUMPTION, AND IF THIS WERE TRUE HOW U.S. LIMITATIONS COULD BE MADE EFFECTIVE. GENERAL GOODPASTER REPLIED THAT WHILE WE WERE NOT CERTAIN ABOUT THE QUANTITY OF SOVIET GRAINS CARRYOVER WE ESTIMATE A SOVIET PRODUCTION-HOLDING CAPACITY OF TWO HUNDRED MILLION TONS, AGAINST A SOVIET WISH TO DISPOSE OF FOUR HUNDRED MILLION. AT VERY LEAST OUR ACTION PLUS LAST YEARS SHORT SOVIET PRODUCTION WOULD LEAD TO HEAVY PRESSURE AND DRAWDOWN OF ANY EXISTING STOCKS.

14. LIMITATIONS ON EXPORTS TO THE SOVIET UNION, GENERAL GOODPASTER CONTINUED, WOULD HAVE EFFECT ON ACTIVITIES ON THE MARGINS OF GRAINS TRADE: POULTRY AND PORK PRODUCTION WILL HAVE TO BE REDUCED. THIS CREATES DOMESTIC PROBLEMS FOR THE SOVIET GOVERNMENT, DISAFFECTION.

15. FOREIGN MINISTER PASTOR ASKED WHETHER DENIAL OF GRAINS TO THE SOVIET UNION BETRAYED PRESIDENT CARTER'S PROMISE NOT TO USE FOOD AS A WEAPON, TO WHICH MR. RUSER REPLIED THAT BASIC HUMAN CONSUMPTION WILL NOT BE AFFECTED. A TEN PERCENT CUT, FOR EXAMPLE, IN GRAINS WOULD, RATHER,

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AFFECT SOVIET EFFORTS TO DIVERSIFY CONSUMER PATTERNS.

16. PASTOR WENT ON TO OBJECT THAT BASICALLY IT WAS WESTERN WEAKNESS DEMONSTRATED IN THE PAST THAT HAD ALLOWED INROADS INTO AFGHANISTAN -- JUST AS IT HAD, HE ASSERTED, INTO CENTRAL AMERICA. WOULD IT NOT BE MORE EFFECTIVE TO USE MILITARY MEASURES TO COUNTER

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MILITARY THRUSTS? PASTOR ADDED THAT HE WAS EQUALLY DUBIOUS ABOUT THE EFFECTIVENESS OF AN OLYMPICS BOYCOTT.

17. MARTINEZ DE HOZ TOOK THE FLOOR TO DEVELOP THESE THEMES. HE DISAPPROVES, IN PRINCIPLE, OF USING ECONOMIC SANCTIONS IN MILITARY-POLITICAL CONFRONTATIONS BECAUSE THE ONLY REALLY CERTAIN EFFECT IS TO DESTROY AN ECONOMIC ORDER. IF ANYTHING, HE SAID, LET ECONOMIC SANCTIONS BE USED AGAINST ECONOMIC CHALLENGES.

18. FURTHER, THE MINISTER DOUBTED WE HAD TAKEN INTO ACCOUNT THAT ONLY THE U.S. AND ARGENTINA ARE SIGNIFICANT FEED GRAINS EXPORTERS. HE VIEWED AS HOLLOW THE WILLINGNESS OF AUSTRALIA, CANADA AND THE EUROPEAN COMMUNITY TO ABIDE BY GRAINS EXPORT LIMITATIONS, SINCE THE EXPORTABLE SURPLUS OF THOSE AREAS WOULD IN ANY EVENT BE DESTINED TO OTHER KINDS OF MARKETS.

19. PERFECTION OF A LIMITATIONS POLICY WILL BE DIFFICULT OR IMPOSSIBLE, THE MINISTER SAID. HE PREDICTED THAT "LEAKAGE" JUST FROM U.S. SUPPLIES COULD AMOUNT TO THREE OR FOUR MILLION TONS. AND IF THIS WERE TRUE OF THE U.S., IT WOULD BE EVEN LIKELIER IN THE CASE OF ARGENTINA AND OTHER EXPORTERS. HE DOUBTED THAT THE SOVIET UNION COULD BE HURT TO THE POINT OF CHANGING ITS POLICY FOR A FEW MILLION TONS OF GRAIN.

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20. MARTINEZ DE HOZ WENT ON TO EXPLAIN THE WORKINGS OF THE ARGENTINE GRAINS TRADE. THIS GOVERNMENT DELIBERATELY SOUGHT TO DISMANTLE THE GRAINS MONOPOLY INHERITED FROM EARLIER GOVERNMENTS. THE POLICY IS FUNDAMENTAL, AND IT HAS LED TO THREE CONSECUTIVE BUMPER CROPS. SUPPORT PRICES ARE USED TO THE SMALLEST EXTENT POSSIBLE AND, GENERALLY SPEAKING, THERE ARE NONE OUTSIDE THE WHEAT TRADE. UNLIKE IN SOME COUNTRIES (THE MINISTER CITED CANADA) THE GRAINS BOARD DOES NOT BUY UP CROPS BUT MERELY REGISTERS INTENDED EXPORTS WITHOUT REGARD TO DESTINATION. EXPORTERS BUY DIRECTLY FROM PRODUCERS, USUALLY ON F.O.B. (BUENOS AIRES OR ROSARIO) TERMS. IT IS THE LARGE INTERNATIONAL TRADING COMPANIES THAT USUALLY PURCHASE ON C.I.F. TERMS AND DOING THIS ACQUIRE RESPONSIBILITY FOR FINAL DESTINATIONS. THE SOVIET GRAINS TRADING ENTITY BUYS IN ARGENTINA LIKE ANY BIG INTERNATIONAL DEALER.

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21. A SUGGESTION THAT THIS PATTERN BE ALTERED IS VERY SERIOUS BUSINESS. "HAD YOU ASKED US WE COULD HAVE EXPLAINED ALL THIS," MARTINEZ DE HOZ SAID. "AT AN EARLIER POINT PERHAPS WE COULD HAVE TAKEN INTO ACCOUNT THESE PRACTICAL DIFFICULTIES, BUT AT THIS POINT IT IS DIFFICULT TO ADOPT MEASURES THAT COST US REVISION OF THE BASIC PREMISES OF OUR SYSTEM."

MARTINEZ DE HOZ WENT ON TO SAY THAT NEW CIRCUMSTANCES SPEAKING AGAINST THIS FORECLOSURE WERE DIFFICULT TO IMAGINE -- GIVEN ESPECIALLY HIS CERTAINTY THAT THERE WILL BE DIVERSIONS, AND THAT WHATEVER ARGENTINA MIGHT DO WOULD LITTLE AFFECT WHAT PRIVATE TRADERS DO IN ITALY, SPAIN, GERMANY OR SWITZERLAND.

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22. THE MINISTER POINTED TO OTHER PRACTICAL DIFFICULTIES. HE ASSERTED THAT ON THE DAY OF THE CONVERSATION THERE WAS A THIRTY DOLLAR SPREAD BETWEEN "EMBARGOED" AND "FREE" GRAINS. THIS CREATES SEVERE TRADE AND MANAGEMENT PROBLEMS, AND IT ALSO CREATES THE QUESTION WHETHER ARGENTINE FARMERS MIGHT NOT LOSE THIS PRICE ADVANTAGE -- NOT TO AN EFFECTIVE POLICY OF LIMITATIONS BUT RATHER TO PRIVATE TRADERS IN OTHER COUNTRIES.

23. MARTINEZ DE HOZ COMMAINED THAT CURRENT MARKET

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DISTORTIONS CREATED BY U.S. POLICY ALREADY HAD COST ARGENTINA MARKETS. BOLIVIA, HE SAID, HAD CANCELLED GRAINS CONTRACTS WITH ARGENTINA WHEN OFFERED "EMBARGOED" U.S. GRAINS ON CONCESSIONAL TERMS. THIS TOOK PLACE, HE SAID, AFTER ARGENTINA HAD COMPLAINED TO THE U.S. DURING BILATERAL CONSULTATIONS. CONVERSATIONS WITH MEXICO HAD STOPPED WHEN MEXICO FOUND IT COULD GET U.S. WHEAT PUT SUDDENLY ON THE MARKET. ARGENTINA'S TRADITIONAL SORGHUM MARKET WITH JAPAN SLUMPED WHEN U.S. SORGHUM PRICES FELL.

24. GOODPASTER DEFENDED: WE HAD NOT SAID THAT GRAINS LIMITATIONS WOULD PULL THE SOVIET UNION OUT OF AFGHANISTAN. BUT EFFECTIVE RESTRICTION -- RESTRICTIONS, THAT IS, NOT OFFSET FROM OTHER SOURCES -- SEND A CLEAR

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SIGNAL OF SOLIDARITY TO THE SOVIET GOVERNMENT. IT IS SOLIDARITY, AFTER ALL, THAT RESTRAINS THE SOVIET UNION FROM USING FORCE TO GAIN ITS ENDS IN EUROPE. HOW ELSE SHOULD SOVIET ATTENTION BE COMMANDED? WITH REGARD TO ARGENTINA'S LOST SALES IT WAS CLEARLY NOT THE INTENTION OF THE U.S. TO ADOPT A BEGGAR-THY-NEIGHBOR POLICY. THE MINISTER'S PRESENTATION ALREADY MAKES ARGENTINA'S CONCERNS A SERIOUS CONCERN TO THE U.S. CLOSE, CONTINUING CONSULTATIONS MUST FOLLOW. WHAT WE SEEK BASICALLY IS MEANS OF MAINTAINING ARGENTINA'S SALES AT HISTORIC LEVELS -- ALREADY THE ANNOUNCED POLICY OF THE ARGENTINE GOVERNMENT.

25. MARTINEZ DE HOZ REPLIED THAT THIS POLICY IMPLIED NOT SEEKING TO CHANGE THE MARKET -- AND THAT THIS INCLUDED A RESOLUTION NOT TO INTERVENE. HE OFFERED HOWEVER THAT INFORMAL MEANS, SHORT OF "INTERVENTION" MIGHT BE FOUND. ARGENTINA COULD, FOR EXAMPLE, GO TO THE SOVIET GRAIN TRADING ENTITY AND ASK THAT IT LIMIT PURCHASES TO "X-QUANTITY." THIS WOULD NOT, HOWEVER, SOLVE THE PROBLEM OF WHAT ULTIMATELY HAPPENS TO ARGENTINE GRAIN SOLD F.O.B. TO A LARGE ITALIAN FIRM.

26. GENERAL GOODPASTER PROBED MARTINEZ DE HOZ'S ADMISSION THAT SOME PRIVATE WORD COULD BE GIVEN TO THE SOVIET TRADING COMPANY. "GIVEN THAT ARGENTINA BELIEVES THE PRACTICAL PROBLEMS OF DESTINATION CONTROL ARE SO GREAT THAT YOU ARE UNPREPARED TO TRY, DO YOU

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IN FACT AGREE TO HOLD U.S.S.R. PURCHASES TO 'HISTORIC LEVELS'?"

27. MARTINEZ DE HOZ REPLIED THAT THIS COULD ONLY BE
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DONE IN SECRECY BECAUSE, HE SAID, SO MUCH HAD GONE AWRY ALREADY: PUBLIC OPINION WAS OFFENDED AT THE U.S. DELIBERATELY MISREPRESENTING ARGENTINE VIEWS ABOUT AN EARLIER "AGREEMENT." THE DAY'S "CLARIN" NEWSPAPER CONTAINED A SHRILL STATEMENT BY AGRICULTURE UNDER SECRETARY HATHAWAY ABOUT MEASURES AGAINST ARGENTINA IF THE COUNTRY FAILED TO JOIN IN UNITED STATES PLANS. MEANWHILE, ARGENTINA HAD CLOSED GRAINS BOARD REGISTRATIONS AS OF JANUARY AND THEN KEPT THE BOARD CLOSED IN ANTICIPATION OF THE GOODPASTER VISIT. EXTENSION OF THE CLOSURE WOULD DISTORT THE LOCAL MARKET FURTHER.

28. GENERAL GOODPASTER TURNED THE CONVERSATION TO POSSIBILITIES WITHIN THE EXISTING ARGENTINE SYSTEM FOR AVOIDING DIVERSIONS. MARTINEZ DE HOZ CORRECTED THAT THE CONVERSATION SHOULD NOT TURN ON "DIVERTING COUNTRIES," BUT RATHER ON "DIVERTING COMPANIES" OPERATING IN SITUATIONS OF GREAT FLUIDITY. ARGENTINE BILLS OF LADING DO SHOW DESTINATIONS BUT, MARTINEZ DE HOZ SAID, NOT FINAL ONES. THUS AN ENORMOUS COMMERCE APPEARS HEADED FOR ROTTERDAM -- BUT ONLY BECAUSE THAT INTERMEDIATE POINT IS EUROPE'S LARGEST ENTREPOT.

29. GENERAL GOODPASTER ASKED WHETHER ARGENTINA COULD COME TO SOME AGREEMENT WITH OTHER COUNTRIES REGARDING DIVERSIONS OF ARGENTINE GRAINS. MARTINEZ DE HOZ REPLIED THAT THE UNITED STATES COULD, AS ITS INITIATIVE, TAKE UP THE MATTER WITH OTHER COUNTRIES. CARE SHOULD BE TAKEN THOUGH NOT TO TAKE ACTION WHICH WOULD HURT ARGENTINE FARMERS, AND ANY SUCH CONSULTATIONS SHOULD TAKE PLACE WITHIN AGREEMENTS EXISTING JUST BETWEEN THE U.S. AND THOSE OTHER COUNTRIES. MEANWHILE, MARTINEZ DE HOZ SAID, "WE WILL NOT OURSELVES PULL STRINGS OR TRY TO MANIPULATE MARKETS."

30. (COMMENT: THE CONVERSATION ENDED AT 2015 TO BE
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